

Central Intelligence Agency



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FOREIGN DIRECT INVESTMENT IN JAPANSummary

The Japanese government has substantially eased most of its legal barriers to foreign direct investment (FDI) and is encouraging foreign firms to invest in Japan with measures such as opening government investment and loan programs to foreign firms, rapidly approving specific joint ventures, and actively soliciting FDI in the semiconductor sector. Nonetheless, foreign firms in Japan are affected by the legacy of Japan's past restrictive policies, continuing government influence over foreign firms, cultural barriers, and other trade-related problems. [REDACTED]

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The current Japanese attitude toward FDI reflects: (1) a desire to ease US-Japanese trade frictions; and (2) an increased Japanese confidence in their ability to compete internationally in high-technology sectors. Japan has generally allowed FDI in these sectors only if domestic firms are judged competitive, or if the foreign firm offers technology needed to develop Japanese capabilities. [REDACTED]

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Japan's trading partners, Japanese businessmen fearful of facing protectionist policies abroad, and local Japanese officials seeking revenues from foreign firms all will pressure Tokyo to maintain a more positive attitude toward FDI than in the past. [REDACTED]

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Furthermore, we believe Tokyo's commitment to the development and maintenance of high technology industries will limit its willingness to allow FDI. In our view, ministry officials would restrict FDI in the future in cases in which a foreign firm's presence was seen as threatening the development or maintenance of a critical or politically sensitive industry sector, based on:

- o Tokyo's commitment to ambitious high technology goals;
- o Its demonstrated willingness to protect critical industries;

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o Its flexible legal framework which allows restraints on FDI. [redacted]

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In the absence of outside pressures, we would expect Tokyo's receptivity to FDI to diminish. We believe trade considerations would discourage the Japanese from reversing official policies toward FDI, but the Japanese could control FDI in sensitive sectors through administrative measures similiar to those used in the past.

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This memorandum was prepared by [redacted] Civil Technology and Industry Division, Office of Global Issues. Information available as of 5 August 1983 was used. Comments and queries are welcome and may be addressed to the Competitive Factors Branch, Civil Technology and Industry Division, Office of Global Issues [redacted]

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